

Litchfield Township
Litchfield, Michigan
(Hillsdale)
Financial Statements and
Independent Auditors' Report
30-1090
Year Ended March 31, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Litchfield Township	County Hillsdale
Audit Date 3/31/04	Opinion Date 9/16/04	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Accounting System for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Willis & Jurasek, P.C.			
Street Address 2545 Spring Arbor Road		City Jackson	State MI
		ZIP 49203	
Accountant Signature <i>Willis & Jurasek, P.C.</i>			Date

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Independent Auditors' Report

Township Board
Litchfield Township
Litchfield, Michigan

We have audited the general purpose financial statements of Litchfield Township, Michigan, as of and for the year ended March 31, 2004, as listed in the table of contents. These general purpose financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The scope of our examination did not include verification of the fund balances at March 31, 2003. Therefore, we are unable to express an opinion on the accompanying statements of revenues, expenditures, and changes in fund balances.

The general purpose financial statements referred to above do not include the General Fixed Assets Account Group, which should be included in order to conform with generally accepted accounting principles. The amount that should be recorded in the General Fixed Assets Account Group is not known.

In our opinion, except for the effect on the general purpose financial statements of the items referred to in the preceding paragraphs, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Litchfield Township, as of March 31, 2004, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated August 24, 2004 on our consideration of Litchfield Township's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of Litchfield Township. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

September 16, 2004

WILLIS & JURASEK, P.C.

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Litchfield Township
Combined Balance Sheet – All Fund Types
March 31, 2004

	Governmental Fund Types	Fiduciary Fund Types		Totals (Memorandum Only)
	General	Cemetery Trust Fund	Current Tax Collection	
<u>Assets</u>				
Cash	\$222,391	\$ 614	\$ 13	\$223,018
Investments	18,872	38,600	-	57,472
Due from other funds	13	-	-	13
Taxes receivable	<u>7,962</u>	<u>-</u>	<u>-</u>	<u>7,962</u>
Total assets	<u>\$249,238</u>	<u>\$ 39,214</u>	<u>\$ 13</u>	<u>\$288,465</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Due to other funds	\$ -	\$ -	\$ 13	\$ 13
Fund balance:				
Reserved for:				
Cemetery expansion	58,462	0	0	58,462
Perpetual care	0	10,112	0	10,112
Unreserved:				
Undesignated	190,776	0	0	190,776
Non-expendable	<u>0</u>	<u>29,102</u>	<u>0</u>	<u>29,102</u>
Total equity	<u>249,238</u>	<u>39,214</u>	<u>0</u>	<u>288,452</u>
Total liabilities and fund balances	<u>\$249,238</u>	<u>\$ 39,214</u>	<u>\$ 13</u>	<u>\$288,465</u>

See Notes to Financial Statements.

Litchfield Township
 Combined Statement of Revenues, Expenditures and Changes in
 Fund Balances – All Governmental Funds and Similar Trust Funds
 Year Ended March 31, 2004

	Governmental Fund Types	Expendable Trust Fund Type Cemetery Trust	Totals (Memorandum Only)
	General		
Revenues:			
Taxes and penalties	\$ 78,304	\$ 0	\$ 78,304
State grants	70,932	0	70,932
Charges for services	21,259	0	21,259
Investments	2,391	1,016	3,407
Cemetery care	0	500	500
Other revenue	5,571	0	5,571
Total revenues	<u>178,457</u>	<u>1,516</u>	<u>179,973</u>
Expenditures:			
Current:			
Legislative	2,340	0	2,340
General government	61,260	0	61,260
Public safety	40,462	0	40,462
Public works	43,908	0	43,908
Recreation and culture	2,271	0	2,271
Other	16,496	0	16,496
Capital outlay	0	0	0
Total expenditures	<u>166,737</u>	<u>0</u>	<u>166,737</u>
Revenues Over (Under) Expenditures	<u>11,720</u>	<u>1,516</u>	<u>13,236</u>
Other Financing Sources (Uses):			
Operating transfers in	1,500	0	1,500
Operating transfers out	0	(1,500)	(1,500)
Total other financing sources (uses)	<u>1,500</u>	<u>(1,500)</u>	<u>0</u>
Net Change in Fund Balances	13,220	16	13,236
Fund Balances – Beginning of Year	<u>236,018</u>	<u>39,198</u>	<u>275,216</u>
Fund Balances – End of Year	<u>\$249,238</u>	<u>\$ 39,214</u>	<u>\$ 288,452</u>

See Notes to Financial Statements.

Litchfield Township
Combined Statement of Revenues, Expenditures and Changes in
Fund Balances – Budget to Actual – General Fund
Year Ended March 31, 2004

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Revenues:			
Taxes and penalties	\$ 77,000	\$ 78,304	\$ 1,304
Licenses and permits	500	15	(485)
State grants	76,000	70,932	(5,068)
Charges for services	20,000	21,259	1,259
Investment income	4,000	2,391	(1,609)
Other revenue	<u>4,000</u>	<u>5,556</u>	<u>1,556</u>
Total revenues	<u>181,500</u>	<u>178,457</u>	<u>(3,043)</u>
Expenditures:			
Current:			
Legislative	2,340	2,340	0
General government	65,530	61,260	4,270
Public safety	36,500	40,462	(3,962)
Public works	23,500	43,908	(20,408)
Recreation and culture	2,500	2,271	229
Other	12,630	16,496	(3,866)
Capital outlay	<u>41,962</u>	<u>0</u>	<u>41,962</u>
Total expenditures	<u>184,962</u>	<u>166,737</u>	<u>18,225</u>
Revenues Over (Under) Expenditures	<u>(3,462)</u>	<u>11,720</u>	<u>15,182</u>
Other Financing Sources (Uses):			
Operating transfer in	<u>2,000</u>	<u>1,500</u>	<u>(500)</u>
Net Change in Fund Balances	<u>(1,462)</u>	<u>13,220</u>	<u>14,682</u>
Fund Balances – Beginning of Year	<u>236,018</u>	<u>236,018</u>	<u>0</u>
Fund Balances – End of Year	<u>\$234,556</u>	<u>\$249,238</u>	<u>\$ 14,682</u>

See Notes to Financial Statements.

Litchfield Township
Notes to Financial Statements

1. Summary of Significant Accounting Policies

The Township operates under an elected Board of Trustees and provides various services to its residents in many areas including public safety, community enrichment, and development and human services.

The accounting policies of the Township conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

Reporting Entity

The accompanying general purpose financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included. Based on the application of the criteria, the entity does not contain component units.

Fund Accounting

The accounts of the government are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not directly in those funds.

The financial activities of the Township are recorded in separate funds and account groups categorized as follows:

Governmental Funds

Governmental funds include the following fund types:

General Fund - This Fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state distributions, grants and charges for services.

Fiduciary Fund Types

These Funds, used to account for assets held in trust or as an agent for others, include Expendable Trust and Agency Funds.

Litchfield Township
Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

Basis of Accounting

The accrual basis of accounting is used by Nonexpendable Trust Funds. The modified accrual basis of accounting is used by all Governmental Funds, Agency Funds and Expendable Trust Funds. Revenue and other sources are recognized in the accounting period in which they become susceptible to accrual - that is when they become both measurable and available to finance expenditures of the fiscal period. Expenditures are recognized when the related liability is incurred. Modifications from the accrual basis are as follows:

- a. Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14, with the final collection date of February 28 before they are added to the Township tax rolls.
- b. Interest on bonded indebtedness and other long-term debt is not recorded as an expenditure until its due date.
- c. Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase.
- d. Normally, expenditures are not divided between years by the recording of prepaid expenses.

Budget and Budgetary Accounting

The Township follows these procedures in establishing budgetary data reflected in the financial statements.

- a. The Township submits a proposed operating budget for the fiscal year commencing April 1.
- b. A public hearing is conducted by the Township to obtain taxpayer comments.
- c. The budget is then legally enacted through passage of the appropriations act.
- d. The budget is adopted on the governmental activity basis.
- e. The budget for the various funds is prepared on a basis consistent with generally accepted accounting principles.

Due To and Due From Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Litchfield Township
Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

Fund Equity and Fund Balance

Fund Equity

Fund equity represents the difference between fund assets and fund liabilities. The governmental and fiduciary funds equity is called "fund balance".

Fund Balance Reservations

Fund balances for all governmental funds are classified as either reserved or unreserved. Reserved fund balances reflect either: (1) funds legally segregated for a specific use; or (2) assets which, by their nature, are not available for expenditure. Unreserved fund balances reflect the balances available for expenditure for the general purpose of the fund.

Revenues and Expenditures

Revenues

Revenues are reported by source. For budgetary control purposes, revenues are further classified as either "general purpose" or "restricted". General purpose revenues are available to fund any activity accounted for in the fund. Restricted revenues are, either by State law or by outside restriction (e.g., federal grants), available only for specified purposes. Unused restricted revenues at year end are recorded as reservations of fund balance.

Expenditures

Expenditures are reported by character. Current expenditures are sub-classified by function and are for items such as salaries, grants, supplies and services. Capital outlay includes expenditures for real property or infrastructure (e.g., highways).

Total Column on Combined Statements – All Fund Types

The Total Column on the Combined Statements – All Fund Types is captioned "Memorandum Only" to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Litchfield Township
Notes to Financial Statements

2. Cash and Cash Equivalents

Deposits are carried at cost. Deposits of the Township are at three banks in the name of Litchfield Township. Michigan Compiled Laws, section 129.91 authorizes the Township to deposit and invest in the accounts of Federally insured banks, insured credit unions and savings and loan associations; bonds and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligation of the State of Michigan or political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Township's deposits are in accordance with statutory authority.

The Balance Sheet caption, "Cash" includes petty cash, demand accounts and certificates of deposit.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Township's cash deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$161,268	\$141,639
Uncollateralized and uninsured	<u>81,750</u>	<u>81,750</u>
Total deposits	<u>\$223,018</u>	<u>\$223,389</u>

Investments

Investments are categorized into three categories of credit risk:

1. Insured or registered, or securities held by entity or its agent in the entity's name.
2. Uninsured and unregistered, with securities held by the counter-party's trust department or agent in the entity's name.
3. Uninsured and unregistered, with securities held by counter-party or by its trust department or agent, but not in the entity's name.

Investments not subject to categorization:

	<u>Carrying Amount</u>	<u>Market Value</u>
Mutual Funds	<u>\$57,472</u>	<u>\$57,472</u>

3. Delinquent Property Taxes Receivable

The delinquent real property taxes of the Township are purchased by the County of Hillsdale. The County intends to sell tax notes, the proceeds of which will be used to pay the Township for these property taxes. It is anticipated this will take place in July of the current year. These taxes have been recorded as revenue for the current year in the amount of \$7,962.

Litchfield Township
Notes to Financial Statements

4. Excess of Expenditures Over Appropriations in Budgetary Funds

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the combining financial statements, the Township's actual and budgeted expenditures for the budgetary funds have been shown on an activity level. The approved budgets of the Township for these budgetary funds were adopted on an activity level basis.

At this level, the Township has incurred certain expenditures in budgetary funds during the fiscal year ended March 31, 2004, which were in excess of the amounts appropriated and are disclosed within the financial statements.

5. Property Taxes

The Township of Litchfield assessed .8313 mills for operating, .9672 mills for roads and .9514 mills for fire protection. The state taxable value for the Township was \$24,888,835 for the 2003 tax year. The property taxes attach as an enforceable lien on property as of December 1st and are payable through March 1. All property taxes not paid by March 1 are deemed delinquent.

Supplemental Information

Litchfield Township

**General Fund
Balance Sheet
March 31, 2004**

Assets

Cash	\$222,391
Investments	18,872
Taxes receivable	<u>7,975</u>
Total assets	<u>\$249,238</u>

Fund Balance

Reserved for:	
Cemetery expansion	\$ 58,462
Unreserved:	
Undesignated	<u>190,776</u>
Total fund balance	<u>\$249,238</u>

Litchfield Township
Statement of Revenues and Other Financial Sources -
Budget to Actual - General Fund
Year Ended March 31, 2004

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Taxes and Penalties:			
Current property taxes	\$ 71,000	\$ 71,898	\$ 898
Tax administration fee	<u>6,000</u>	<u>6,406</u>	<u>406</u>
Total taxes and penalties	<u>77,000</u>	<u>78,304</u>	<u>1,304</u>
Licenses and Permits	<u>500</u>	<u>15</u>	<u>(485)</u>
State Grants:			
State shared revenues	<u>76,000</u>	<u>70,932</u>	<u>(5,068)</u>
Charges for Services:			
Sale of cemetery lots	8,000	9,056	1,056
Cemetery maintenance	<u>12,000</u>	<u>12,203</u>	<u>203</u>
Total charges for services	<u>20,000</u>	<u>21,259</u>	<u>1,259</u>
Investment Income:			
Investment income	<u>4,000</u>	<u>2,391</u>	<u>(1,609)</u>
Other Revenue:			
Miscellaneous	<u>4,000</u>	<u>5,556</u>	<u>1,556</u>
Total revenues	181,500	178,457	(3,043)
Other Financing Sources:			
Transfers in	<u>2,000</u>	<u>1,500</u>	<u>(500)</u>
Total revenues and other financing sources	<u>\$183,500</u>	<u>\$179,957</u>	<u>\$ (3,543)</u>

Litchfield Township
Statement of Expenditures
Budget to Actual – General Fund
Year Ended March 31, 2004

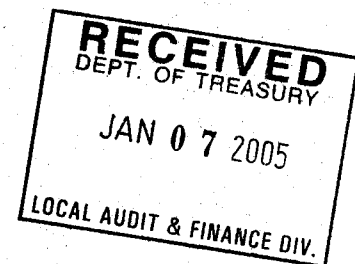
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Legislative:			
Township board	\$ <u>2,340</u>	\$ <u>2,340</u>	\$ <u>0</u>
General Government:			
Township supervisor	5,200	5,200	0
Township assessor	7,020	7,020	0
Township clerk	5,200	5,200	0
Board of review	750	510	240
Township treasurer	7,200	7,200	0
Cemetery maintenance	32,000	24,615	7,385
Township hall	2,500	1,910	590
Drains	2,500	4,420	(1,920)
Other	<u>3,160</u>	<u>5,185</u>	<u>(2,025)</u>
Total general government	<u>65,530</u>	<u>61,260</u>	<u>4,270</u>
Public Safety:			
Fire department	36,000	39,972	(3,972)
Zoning	<u>500</u>	<u>490</u>	<u>10</u>
Total public safety	<u>36,500</u>	<u>40,462</u>	<u>(3,962)</u>
Public Works:			
Roads	<u>23,500</u>	<u>43,908</u>	<u>(20,408)</u>
Recreation and Culture:			
Library	<u>2,500</u>	<u>2,271</u>	<u>229</u>
Other:			
Employee benefits - social security taxes	1,600	1,576	24
Insurance and bonds	6,000	7,513	(1,513)
Miscellaneous	<u>5,030</u>	<u>7,407</u>	<u>(2,377)</u>
Total other	<u>12,630</u>	<u>16,496</u>	<u>(3,866)</u>
Capital Outlay	<u>41,962</u>	<u>0</u>	<u>41,962</u>
Total Expenditures	<u>\$184,962</u>	<u>\$166,737</u>	<u>\$ 18,225</u>

Litchfield Township
Statement of Changes in
Assets and Liabilities -
Current Tax Collection Fund
Year Ended March 31, 2004

	Balance <u>April, 2003</u>	<u>Additions</u>	<u>Deduction</u>	Balance <u>March 31, 2004</u>
Assets:				
Cash	\$ <u>0</u>	\$ <u>467,652</u>	\$ <u>467,639</u>	\$ <u>13</u>
Liabilities:				
Due to other funds	\$ 0	\$ 60,482	\$ 60,469	\$ 13
Due to County	0	138,871	138,871	0
Due to schools	0	244,731	244,731	0
Due to other governmental units	<u>0</u>	<u>23,568</u>	<u>23,568</u>	<u>0</u>
Total liabilities	\$ <u>0</u>	\$ <u>467,652</u>	\$ <u>467,639</u>	\$ <u>13</u>



September 16, 2004



To the Governing Body
of Litchfield Township

We have audited the financial statements of Litchfield Township for the year ended March 31, 2004, and have issued our report thereon dated September 16, 2004. In planning and performing our audit of the general-purpose financial statements of the Township, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control.

The Management of the Township is responsible for establishing and maintaining effective internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control. The objectives of internal control are to provide the Council with a reasonable but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with the Council's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of the inherent limitations in any system of internal control, errors and irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluations made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion of the system of internal accounting control of the Township taken as a whole. However, our study and evaluation disclosed no conditions that we believe to be a material weakness.

Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement proposal, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

WILLIS & JURASEK, P.C.

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Our Responsibility under Generally Accepted Auditing Standards (Continued)

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Township's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Township are described in Note 1 to the financial statements. No new accounting policies were adopted and no other applications of existing policies were changed during the current year. We noted no transactions entered into by the Township during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no material estimates recorded in the current year.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Township's financial reporting process (that is, cause future financial statements to be materially misstated). There were no significant audit adjustments recorded at year-end.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

To the Governing Body
of Litchfield Township
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Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Township Council and management of the Township and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank the Township and its staff for the cooperation extended to us during our audit and would be happy to discuss any of the comments in detail if you so desire.

Sincerely,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

**Litchfield Township
Comment and Recommendations**

Government Accounting Standards Board – New Reporting Model

The Governmental Accounting Standards Board has recently issued Statement 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The new reporting model will significantly impact government's financial statement presentation. Under the new reporting model, general-purpose governments must present the following basic financial statements and required supplementary information:

- Management's discussion and analysis (MD&A).
- Government-wide financial statements.
- Fund financial statements.
- Notes to the financial statements.
- Required supplementary information, including budgetary comparison schedules and other data required by previous GASB pronouncements.

The MD&A is a narrative report prepared in an easy-to-read format by the government's financial manager. It should:

- Introduce the basic financial statements.
- Provide an analytical overview of the government's financial manager's knowledge of the transaction, event, and conditions reflected in the financial report and the fiscal policies that control the government's operations.

GASB No. 34 requires MD&A to include, at a minimum:

- A brief discussion of the relationships of the basic financial statements to each other and the major differences in the information provided in each.
- A comparison in condensed form of information presented in the government-wide financial statements for the current and prior year.
- An analysis of significant changes that occurred in individual funds and any limitations that might affect the availability of fund resources in the future.
- An analysis of significant budget variances (original vs. final budget and final budget vs. actual results) for the general fund or its equivalent, including reasons for those variances that may affect future services or liquidity.
- A summary of significant capital asset and long-term debt activity with a discussion of commitments and limitations that may affect future financing of planned facilities or services.
- A description of facts, conditions, or decisions of which management was aware on or before the audit report date that are expected to have a significant impact on financial position or results of operations after the reporting date.

The Local Audit Division of the Treasury Department of the State of Michigan has determined that omission of the MD & A, the Government-Wide Statements and Infrastructure Reporting will not result in any sanction or in a request for remediation.

The implementation date for the new reporting model is in phases depending on the government's revenues. For the Township, the new standard will be effective for the year ending March 31, 2004. The Township should consider now which of the areas of the new standard need to be addressed such as fixed assets and determine the areas that could be taken care of before the end of the next fiscal year.

**Litchfield Township
Comment and Recommendations (Continued)**

Segregation of Duties

Substantially all of the accounting and financial management functions of the Township are performed by two individuals, the Township Clerk and the Township Treasurer, both of which are elected positions. While the size and resources of the Township are limited in terms of providing adequate separation of duties, the Board should be mindful of this condition and, where possible, establish reasonable control procedures.

Computerization

We would recommend you consider computerizing your general ledger and accounting package. There are many different software available that could handle your accounting needs. It could help simplify recording and financial reporting as well as be some time savings.